The Babcock & Wilcox Company Annual Report 1969

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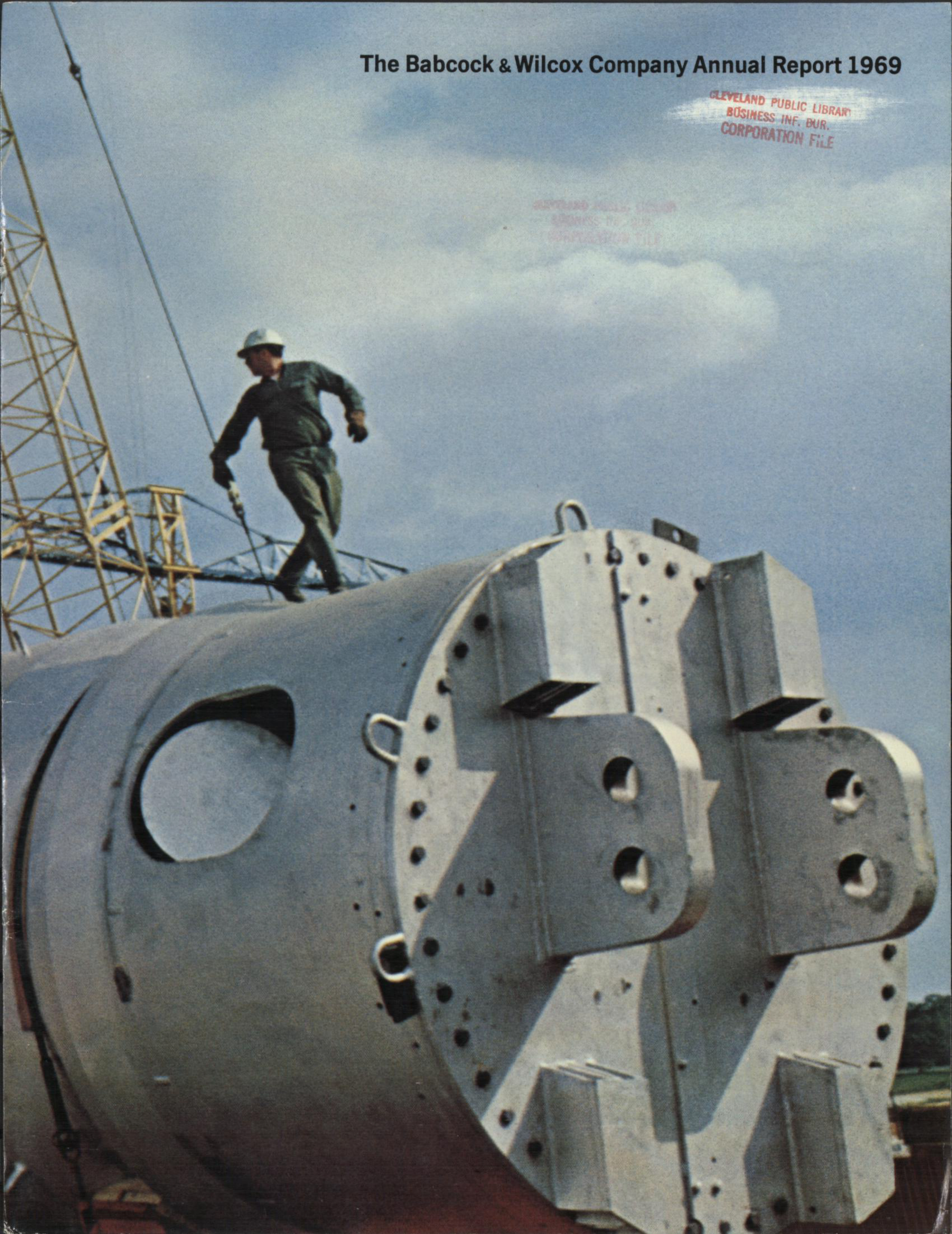

The Babcock & Wilcox Company

Incorporated in 1881 from a partnership formed in 1867.

Babcock & Wilcox is a major producer of capital goods, including steam generating equipment, nuclear systems and components, equipment for air and water pollution control and for cleaning heat transfer surfaces, meters and controls, systems for process automation, automated production machinery, steel tubular products and refractories.

General Offices

161 East 42nd Street, New York, N.Y. 10017

Stock Transfer Agent

BANKERS TRUST COMPANY
16 Wall Street, New York, N.Y. 10015

Registrar

THE BANK OF NEW YORK
48 Wall Street, New York, N.Y. 10015

General Counsel

SULLIVAN & CROMWELL
48 Wall Street, New York, N.Y. 10005

Auditors

PRICE WATERHOUSE & CO.
60 Broad Street, New York, N.Y. 10004

Stock Listed

NEW YORK STOCK EXCHANGE and PACIFIC STOCK EXCHANGE

Notice to Stockholders

The Annual Meeting of Stockholders will be held at 10 A.M., Wednesday, April 22, 1970, in the Biltmore Hotel, New York City. A formal notice of the meeting with a proxy statement and form of proxy will be mailed to each stockholder March 13.

Directors

†A. G. PRATT, Chairman Emeritus
M. NIELSEN, Chairman
GEORGE G. ZIPF, President
W. O. BAKER
JOHN L. BURNS
R. J. CANTWELL
WALTHER H. FELDMANN
DONALD N. FREY
J. ROY GORDON
GEORGE C. KERN, JR.
B. A. TOMPKINS
J. C. TRAPHAGEN

†Honorary Director

Officers

President and Chief Executive Officer

GEORGE G. ZIPF

Vice Presidents

*R. J. CANTWELL, Finance & Accounting Division
*CARL CLAUS, Staff Division
*ELLIS T. COX, Power Generation Division
R. H. HARRISON, President's Staff
G. W. KESSLER, Engineering, Power Generation Division
*G. W. KROSS, JR., Tubular Products Division
W. H. ROWAND, Nuclear Power, Power Generation Division
C. T. SMITH, Sales, Power Generation Division
*A. P. TABER, Research and Development Division
L. B. WOHLGEMUTH, Sales, Tubular Products Division

**Division Heads*

Controller

H. D. KENNEY

Treasurer

W. P. CATTERSON

Secretary

MARTIN VICTOR

The Babcock & Wilcox Company Eighty-ninth Annual Report

for the year ended December 31, 1969

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Cover Photo: *Delivery of the two steam generators and the pressure vessel for the first of three B&W nuclear steam systems for Duke Power Company's Oconee station was completed during the year. Each of the steam generators contains 170 miles of special alloy tubing and weighs over 1,000,000 pounds. A steam generator is shown arriving at the site from B&W's Barberton, Ohio plant. The 815-mile trip was made by rail on two specially-built 12-axle flat cars with the last few miles over highway using another specially-built 240-wheel vehicle.*

1969 Highlights

TOTALS	**1969**	1968
Orders received	**$ 812,758,000**	$ 911,082,000
Unfilled orders	**1,747,787,000**	1,653,595,000
Sales (on percentage of completion method for long-term contracts)	**718,566,000**	647,613,000
Net income for the year	**5,725,000**	25,242,000
Cash dividends declared	**16,752,000**	16,726,000
Expenditures for property, plant and equipment	**50,523,000**	37,388,000
Depreciation of plant and equipment	**13,439,000**	10,934,000
Working capital	**141,205,000**	214,728,000
Stockholders' equity	**277,216,000**	288,243,000
Number of employees at year end	**35,118**	32,371
Number of common stockholders at year end	**31,419**	26,269
Number of common shares issued at year end	**12,366,626**	12,366,626
PER COMMON SHARE ISSUED*		
Net income for the year	**$ .46**	$ 2.04
Cash dividends declared	**1.36**	1.36
Stockholders' equity	**22.42**	23.31

***Shares issued were unchanged during the periods.**

Letter to Stockholders

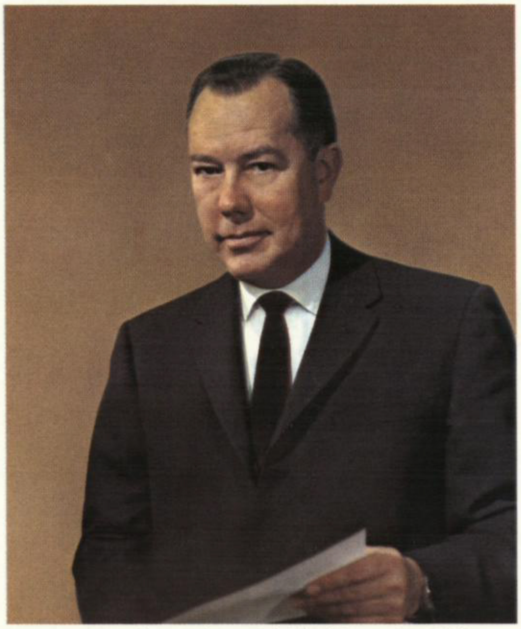
To The Stockholders of
The Babcock & Wilcox Company:

Earnings for 1969 were drastically affected by the substantial losses that were absorbed in the atomic energy business of the Power Generation division, together with reduced earnings from its fossil fuel business resulting from congested facilities caused by the nuclear work. For the rest of the Company's diversified product lines, the year was one of good performance with some equalling or exceeding their 1968 earnings.

The utilities' sudden and widespread demand for nuclear power plants in the period 1966-67, stimulated by expected operating economies, resulted in orders unprecedented in volume and scope of work for all the major suppliers. Delays have occurred and are expected to occur in many of the new plants for a variety of reasons in addition to manufacturing problems. These include delays in engineering and building construction, licensing procedures, transportation and handling problems, site selection, and the gaining of public confidence. In the case of B&W, the initial manufacturing problems caused by the rapid growth of the atomic business were further aggravated by a scarcity of skilled workers, strikes at various plants, and late delivery by vendors of critical machinery.

Many corrective steps have been and will continue to be taken by management in an effort to improve performance in the Power Generation division. New leadership has been provided and the division has been reorganized on the basis of product lines with redefined responsibilities and authority. Production capability has been improved by the addition of machinery and facilities, by continuous training programs aimed at providing the skilled craftsmen needed for high quality nuclear work, and by improvements in the manufacturing organization.

As noted in last year's Report, several of these corrective steps were initiated in 1968, particularly in respect to the reactor vessel situation at our Mount Vernon plant. While progress was made during 1969, it became apparent by mid-year that it would not be sufficient to alleviate the bottleneck which had developed because of initial delays. To improve this situation, orders for 14 vessels, in various stages of fabrication, are to be completed by other manufacturers, substantial costs in connection with which were absorbed by B&W in 1969. To date, Mount Vernon has manufactured and shipped six nuclear reactor vessels, three of them in 1969. Twenty reactor vessels for commercial and other nuclear applications remain on order, seven of which are scheduled to be shipped in 1970.


George G. Zipf, President and Chief Executive Officer

Work on B&W's 11 nuclear steam supply systems, where the Company is the prime contractor, is proceeding in accordance with revised schedules which reflect varying degrees of delay from original expectations. The reactor vessel and the two steam generators for Duke Power Company's first unit at Oconee were shipped during the year. Other major components will be shipped in 1970 and commercial operation of this plant remains scheduled by the customer for mid-1971.

Only eight nuclear reactor systems were ordered by U.S. utilities in 1969, compared with 17 in 1968 and 30 in 1967. While we did not receive any of the business placed in 1969, we are presently discussing proposals with several utilities which have plants under consideration. B&W intends to participate actively and profitably in what is expected to be a growing business. As the utility industry gains experience with nuclear power generation, and the many complex problems of siting, licensing, and public confidence are solved, orders for nuclear plants should resume their upward trend.

In addition to its commercial atomic energy work, the Company is also producing a substantial volume of nuclear power plant components and fuel for the Navy.

Except for major areas of atomic activity, all of the Company's product lines operated profitably in 1969, with shipments of refractories, machinery products, boiler cleaning equipment, instruments, control systems, and naval nuclear fuel significantly higher than in 1968. Tubular and steel products also concluded a very good year despite the effects of strikes at the Alliance and Milwaukee plants. *(continued)*

Capital expenditures for all divisions and subsidiaries during 1969 totaled $50,523,000. The effects of these expenditures are expected to be reflected in improved schedules and production efficiency as well as in the manufacture of new products. It is estimated that 1970 capital expenditures will exceed $30,000,000.

The approximate distribution of our 1969 and 1968 shipments by industry was as follows:

	1969	1968
Electric Utilities	40%	43%
Government	18	13
Warehouse and Distributors	9	11
Machinery	9	10
Transportation	6	6
Primary Metals	4	4
Pulp and Paper	4	2
Fabricated Metal Products	3	2
Chemical and Petroleum	2	2
Miscellaneous	5	7
	100%	100%

All major product lines, with the exception of atomic energy, registered increased bookings in 1969 and new orders for the year totaled $812,758,000. The backlog at the end of the year rose to $1,747,787,000. Of the backlog, approximately one-half is for atomic energy work. A substantial part of the balance is for fossil fuel steam generating equipment scheduled for shipment in the next two years and the outlook for continuing business in this product line is excellent.

There have been many changes in Company management at all levels during the year. Ellis T. Cox joined the Company in September 1969 as Vice President in charge of the Power Generation division. He brings to this assignment a background of accomplishments in engineering and managerial capacities in various areas, including nuclear programs.

Paul S. Dickey retired as Chairman of Bailey Meter Company in April 1969 after a 44 year career with that subsidiary, which is under the direction of J. H. Dennis, President. R. A. Barr retired as a Vice President of the Company in June and R. P. Stuntz, General Manager, assumed his duties as head of the Refractories division.

M. Nielsen, who served as Chief Executive Officer from April 1957 to September 1968, retired as an active employee of the Company on May 1, 1969. He continues as Chairman of the Board of Directors. During his 45 years of active service, Mr. Nielsen made many significant contributions to the Company's progress.

Auguste G. Pratt, Chairman Emeritus and Honorary Director of the Company passed away on January 22, 1970. Mr. Pratt served the Company for 65 years. Its growth during that period is a tribute to his inspired leadership. We shall miss the counsel of this outstanding man.

Donald N. Frey, President of General Cable Corporation, was elected a member of the Board of Directors on February 27, 1969. Samuel H. Wooley, Chairman of The Bank of New York, was elected a Director on January 29, 1970. The resignation of J. C. Traphagen, who has rendered distinguished service as a Board member since 1944, was accepted on January 29, and he has been appointed an Honorary Director.

The number of people owning stock in the Company increased steadily throughout 1969. On December 31, 1969, there were 31,419 stockholders, compared with 26,269 at the end of the previous year—an increase of 20 per cent.

The Company has been going through a lengthy period of identifying problems in an important area of its business and taking affirmative action to deal with them. There are uncertainties ahead such as the impact of labor negotiations, the effects of strikes which began on February 15 at five of our plants, and the general level of national economic activity. There also may be possible additional costs and expenses, including claims, resulting from delays in the atomic energy business, although management does not expect that amounts, if any, will be material. We believe that the basis has been established for a more profitable future and current indications are that results for 1970 will show a significant improvement over those for 1969.

At its February meeting the Board of Directors declared a regular quarterly dividend of 34 cents per share payable April 1 to shareholders of record on March 9, 1970.

Many dedicated and loyal employees throughout the organization are working to continue improving our operations, and I want to express my thanks for their efforts. The support of our many stockholders and customers is also very much appreciated.

George G. Zipf

George G. Zipf
President and Chief Executive Officer

February 26, 1970

Consolidated Statement of Income & Retained Earnings

	For the Calendar Year 1969	 1968
Sales (on percentage of completion method for long-term contracts)	**$718,565,944**	$647,613,025
Costs and expenses:		
Costs and operating expenses	**653,373,912**	550,098,270
Selling, general and administrative expenses	**36,737,530**	34,424,700
Depreciation of plant and equipment (Note 4)	**13,438,534**	10,933,521
	703,549,976	595,456,491
Income from operations	**15,015,968**	52,156,534
Income from investments and marketable securities	**505,447**	928,571
Interest expense	**(9,022,854)**	(3,391,241)
Income before taxes and minority interests	**6,498,561**	49,693,864
U.S. and foreign taxes on income (Notes 2 and 4)	**190,000**	23,710,000
	6,308,561	25,983,864
Income applicable to minority interests	**(583,803)**	(741,635)
Net income for the year (per share: 1969—$.46; 1968—$2.04) (Note 3)	**5,724,758**	25,242,229
Cash dividends declared	**16,752,000**	16,726,404
Remainder, to retained earnings	**(11,027,242)**	8,515,825
Retained earnings at beginning of year	**205,911,752**	197,395,927
Retained earnings at end of year	**$194,884,510**	$205,911,752

Consolidated Statement of Source and Application of Funds

	For the Calendar Year 1969	 1968
WORKING CAPITAL AT BEGINNING OF YEAR	**$214,728,409**	$180,735,127
SOURCES:		
Net income	**5,724,758**	25,242,229
Depreciation	**13,438,534**	10,933,521
Net increase in noncurrent indebtedness		44,800,000
Net increase in noncurrent deferred income taxes	**5,015,000**	3,925,000
	24,178,292	84,900,750
APPLICATIONS:		
Additions to property, plant and equipment	**50,523,415**	37,388,445
Cash dividends declared	**16,752,000**	16,726,404
Net decrease in noncurrent indebtedness	**31,200,000**	
Other, net	**(773,485)**	(3,207,381)
	97,701,930	50,907,468
NET (DECREASE) INCREASE IN WORKING CAPITAL	**(73,523,638)**	33,993,282
WORKING CAPITAL AT END OF YEAR	**$141,204,771**	$214,728,409

Consolidated Balance Sheet

	At December 31	
ASSETS		
CURRENT ASSETS	**1969**	1968
Cash	**$ 13,548,645**	$ 16,198,612
Marketable securities, at cost (approximate market)	**1,912,761**	1,265,724
Accounts receivable	**113,877,797**	98,984,964
Unbilled sales (Note 2)	**84,578,157**	67,071,328
Inventories, including long-term contract costs (less advance payments on contracts) (Note 2)	**170,151,565**	160,300,471
TOTAL CURRENT ASSETS	**384,068,925**	343,821,099
NONCURRENT RECEIVABLES	**1,348,245**	2,016,649
INVESTMENTS, at cost	**340,492**	340,514
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation and amortization (Note 4)	**202,647,504**	165,637,835
PREPAID EXPENSES AND OTHER ASSETS	**4,566,447**	4,216,705
TOTAL ASSETS	**$592,971,613**	$516,032,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable (Note 5)	**$ 86,339,851**	$ 6,760,672
Accounts payable and accrued liabilities	**139,366,858**	98,228,746
Cash dividends payable	**4,188,696**	4,183,934
U.S. and foreign income taxes	**12,968,749**	19,919,338
TOTAL CURRENT LIABILITIES	**242,864,154**	129,092,690
NONCURRENT INDEBTEDNESS (Note 5)	**56,000,000**	87,200,000
DEFERRED INCOME TAXES	**8,940,000**	3,925,000
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	**7,951,522**	7,571,933
TOTAL LIABILITIES	**315,755,676**	227,789,623
STOCKHOLDERS' EQUITY		
Capital Stock:		
Preferred, cumulative, no par; authorized and unissued 2,000,000 shares		
Common, par value $4.50; authorized 18,000,000 shares, issued 12,366,626 shares (amounts include $26,681,610 excess over par value-capital surplus)	**82,331,427**	82,331,427
Retained earnings	**194,884,510**	205,911,752
TOTAL STOCKHOLDERS' EQUITY	**277,215,937**	288,243,179
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$592,971,613**	$516,032,802

Opinion of Independent Accountants

To the Stockholders and Directors of The Babcock & Wilcox Company:

In our opinion, the accompanying consolidated balance sheet and statements of income and retained earnings and source and application of funds present fairly the financial position of The Babcock & Wilcox Company and its subsidiaries at December 31, 1969, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

New York, N.Y., February 13, 1970

PRICE WATERHOUSE & CO.

Notes to Consolidated Financial Statements

Note 1—The financial statements include The Babcock & Wilcox Company and all subsidiary companies. The accounts of foreign subsidiaries have been translated into U.S. dollars at current rates of exchange, except for property, plant and equipment which has been translated at appropriate historical rates.

Note 2—The consolidated inventories at December 31 are summarized below:

	1969	1968
Raw materials and supplies	$ 73,423,000	$ 61,634,000
Work in process	140,245,000	134,534,000
Finished products	9,147,000	8,755,000
	222,815,000	204,923,000
Less: Advance payments	52,663,000	44,623,000
	$170,152,000	$160,300,000

Inventories are stated generally at the lower of cost or market. Other than for long-term contracts, cost is determined on the average or first-in, first-out basis for raw materials and supplies and accumulated production costs for work in process and finished products.

With respect to long-term contracts, the Company records sales and cost of sales by the percentage of completion method related principally to shipments or, in the case of nuclear contracts, to incurred direct labor. The costs recorded on uncompleted individual long-term contracts within each fiscal period are based upon estimates to complete. Cost estimates are reviewed periodically as the work progresses and adjustments, if any, proportionate to the percentage of completion are reflected in the period when such estimates are revised.

The completed contract method is followed for income tax purposes and provision is made currently for tax payments thereby delayed (1969—$8,963,000; 1968—$10,261,000).

Note 3—The 1969 results reflect costs and expenses incurred from certain actions taken to alleviate delays and the effects of delays in carrying out some long-term nuclear contracts. Additional costs and expenses, including claims, may result from delays but management does not expect that amounts, if any, will be material.

Note 4—Fixed assets which are carried at cost less accumulated depreciation may be summarized as follows:

	1969	1968
Land	$ 5,353,000	$ 4,838,000
Buildings	110,925,000	90,841,000
Machinery and Equipment	251,003,000	216,464,000
Construction in progress	16,074,000	22,413,000
	383,355,000	334,556,000
Accumulated depreciation	180,707,000	168,918,000
	$202,648,000	$165,638,000

For financial accounting purposes, the Company follows the straight line method of computing depreciation while following accelerated methods for income tax purposes with appropriate deferral of income tax (1969—$5,015,000; 1968—$3,925,000).

Provisions for federal taxes on income reflect deductions for the tax investment credit of $2,021,000 in 1969 and $1,312,000 in 1968.

Note 5—Consolidated obligations consisted of the following:

	1969	1968
Current:		
Commercial paper	$ 21,613,000	$ —
Line of credit	55,000,000	—
Other	9,727,000	6,761,000
	86,340,000	6,761,000
Noncurrent:		
Bank loan agreement	46,000,000	75,000,000
Notes payable	10,000,000	12,200,000
	56,000,000	87,200,000
	$142,340,000	$93,961,000

The Company has the option to borrow at prime rate up to an aggregate of $150,000,000 from several banks under a bank loan agreement or on a line of credit. At December 31, 1969, $101,000,000 of this amount, as shown above, was borrowed. The outstanding amounts borrowed under the bank loan agreement are convertible upon election of the Company prior to December 31, 1970 into term loans payable quarterly over a 48 month period with interest at ¼ of 1% in excess of the then prime rate.

Certain of the agreements contain, among other things, requirements as to consolidated working capital, as defined, and dividend declarations. At December 31, 1969, all such requirements have been met.

Note 6—The Company has several pension plans, principally non-contributory, covering substantially all employees. The total pension expense funded and charged to income in 1969 was $8,366,000 which includes amortization of prior service cost over a period of forty years. The unfunded prior service cost at December 31, 1969 was approximately $40,000,000.

Note 7—Transactions in 1969 under the stock option plans approved by the stockholders in 1958 and 1963 are summarized as follows:

	Shares	
	1958 Plan	1963 Plan
Options outstanding on January 1, 1969	39,096	300,364
Options granted	—	—
Options exercised	(12,892)	(740)
Options lapsed	(500)	(92,024)
Options outstanding on December 31, 1969	25,704	207,600

No further options may be granted under either plan.

Income & Retained Earnings

Ten-Year Comparison (in thousands of dollars) For the Calendar Year	1969	1968	1967	1966
Sales (on percentage of completion method for long-term contracts)	**$718,566**	$647,613	$624,723	$561,627
Costs and expenses except depreciation	**690,111**	584,522	545,935	485,628
Depreciation and amortization	**13,439**	10,934	16,436	14,778
	703,550	595,456	562,371	500,406
Income from operations	**15,016**	52,157	62,352	61,221
Income from investments and marketable securities	**505**	928	305	2,095
Interest expense	**(9,022)**	(3,391)	(1,412)	(838)
Income before taxes and minority interests	**6,499**	49,694	61,245	62,478
U.S. and foreign taxes on income	**190**	23,710	27,260	28,710
	6,309	25,984	33,985	33,768
Income applicable to minority interests	**(584)**	(742)	(770)	(766)
Net income for the year	**5,725**	25,242	33,215	33,002
Equity in earnings of subsidiary prior to obtaining majority control				
	5,725	25,242	33,215	33,002
Cash dividends declared	**16,752**	16,726	16,681	15,313
Remainder added to retained earnings	**(11,027)**	8,516	16,534	17,689
Retained earnings at beginning of year	**205,911**	197,395	180,861	163,172
Retained earnings at end of year	**$194,884**	$205,911	$197,395	$180,861

Source and Application of Funds

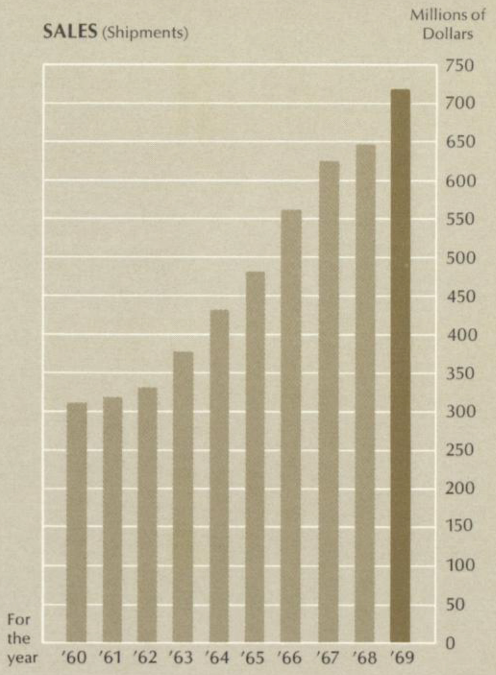
Ten-Year Comparison (in thousands of dollars) For the Calendar Year	1969	1968	1967	1966
WORKING CAPITAL AT BEGINNING OF YEAR	**$214,728**	$180,735	$156,721	$163,400
SOURCES:				
Net income	**5,725**	25,242	33,215	33,002
Depreciation and amortization	**13,439**	10,934	16,436	14,778
Net increase in noncurrent indebtedness		44,800	25,800	
Net increase in noncurrent deferred income taxes	**5,015**	3,925		
Working capital of subsidiary initially consolidated				
	24,179	84,901	75,451	47,780
APPLICATIONS:				
Additions to property, plant and equipment	**50,523**	37,388	33,509	34,807
Cash dividends declared	**16,752**	16,726	16,681	15,313
Net decrease in noncurrent indebtedness	**31,200**			2,200
Net increase (decrease) in noncurrent receivables	**(669)**	(1,612)	1,547	1,695
Other (net)	**(104)**	(1,594)	(300)	444
	97,702	50,908	51,437	54,459
NET INCREASE (DECREASE) IN WORKING CAPITAL	**(73,523)**	33,993	24,014	(6,679)
WORKING CAPITAL AT END OF YEAR	**$141,205**	$214,728	$180,735	$156,721

Statistics

	1969	1968	1967	1966
Income from operations before taxes—% of sales	**2.1%**	8.1%	10.0%	10.9%
Net income for year—% stockholders' equity first of year	**2.0%**	9.0%	12.6%	13.4%
Orders received—thousands of dollars	**$ 812,758**	$ 911,082	$1,099,295	$840,064
Unfilled orders—thousands of dollars	**$1,747,787**	$1,653,595	$1,390,127	$915,555
Common shares issued end of year	**12,366,626**	12,366,626	12,366,626	12,366,626
Per common share issued (adjusted for stock split—12,366,626 shares):				
Income for year	**$ .46**	$ 2.04	$ 2.69	$ 2.67
Cash dividends declared	**1.36**	1.36	1.36	1.25
Stockholders' equity	**22.42**	23.31	22.62	21.28

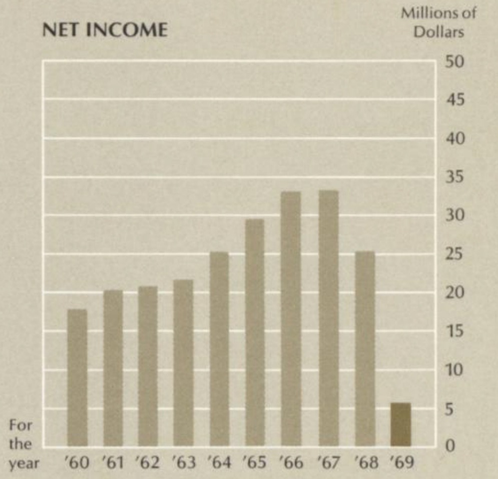
1965	1964	1963	1962	1961	1960
$481,600	$430,957	$377,684	$330,574	$319,353	$310,999
412,487	370,335	321,392	277,245	268,721	266,749
13,519	12,825	11,227	10,335	8,673	8,543
426,006	383,160	332,619	287,580	277,394	275,292
55,594	47,797	45,065	42,994	41,959	35,707
1,461	2,224	2,035	2,068	2,283	2,011
(715)	(750)	(834)	(952)	(1,120)	(1,218)
56,340	49,271	46,266	44,110	43,122	36,500
26,060	23,480	24,240	23,000	22,580	18,380
30,280	25,791	22,026	21,110	20,542	18,120
(830)	(595)	(279)	(250)	(301)	(303)
29,450	25,196	21,747	20,860	20,241	17,817
	1,030				
29,450	26,226	21,747	20,860	20,241	17,817
13,458	12,211	10,480	9,759	8,849	7,632
15,992	14,015	11,267	11,101	11,392	10,185
147,180	133,165	121,898	110,797	99,405	89,220
$163,172	$147,180	$133,165	$121,898	$110,797	$ 99,405

SALES (Shipments)



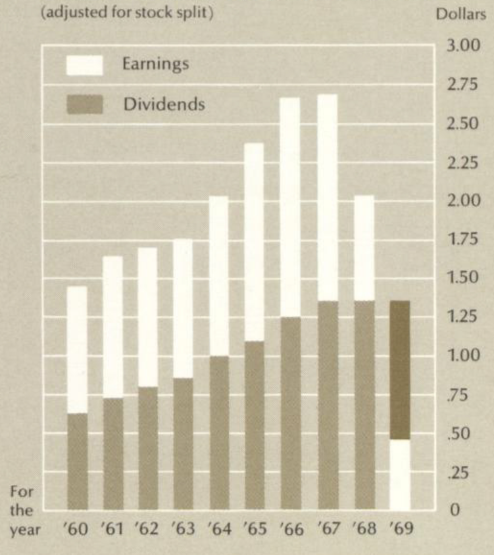
1965	1964	1963	1962	1961	1960
$137,710	$119,851	$129,873	$146,524	$137,164	$127,453
29,450	25,196	21,747	20,860	20,241	17,817
13,519	12,825	11,227	10,335	8,673	8,543
	5,084				
42,969	43,105	32,974	31,195	28,914	26,360
19,610	12,265	23,101	25,662	6,188	6,105
13,458	12,211	10,480	9,759	8,849	7,632
	2,200	2,200	2,200	4,400	2,200
(13,535)	(1,877)	6,072	9,727		
(2,254)	447	1,143	498	117	712
17,279	25,246	42,996	47,846	19,554	16,649
25,690	17,859	(10,022)	(16,651)	9,360	9,711
$163,400	$137,710	$119,851	$129,873	$146,524	$137,164

NET INCOME



1965	1964	1963	1962	1961	1960
11.5%	11.1%	11.9%	13.0%	13.1%	11.5%
12.8%	11.7%	10.6%	10.8%	11.1%	10.4%
$651,195	$525,814	$398,990	$348,907	$361,285	$301,146
$637,118	$467,523	$372,666	$351,360	$333,027	$291,095
12,366,626	12,366,626	6,183,313	6,183,313	6,183,313	6,183,313
$ 2.38	$ 2.04	$ 1.76	$ 1.69	$ 1.64	$ 1.44
1.10	1.00	.86	.80	.73	.63
19.85	18.56	17.43	16.51	15.62	14.70

EARNINGS PER SHARE AND CASH DIVIDENDS DECLARED PER SHARE
(adjusted for stock split)



Balance Sheets

Ten-Year Comparison (in thousands of dollars) At December 31	**1969**	1968	1967	1966
ASSETS				
CURRENT ASSETS				
Cash	**$ 13,549**	$ 16,199	$ 12,839	$ 15,830
Marketable securities	**1,912**	1,266	5,297	16,580
Accounts receivable	**113,878**	98,985	85,525	75,671
Unbilled sales	**84,578**	67,071	47,841	35,136
Inventories, net of advance payments	**170,152**	160,300	138,625	119,396
TOTAL CURRENT ASSETS	**384,069**	343,821	290,127	262,613
NONCURRENT RECEIVABLES	**1,348**	2,017	3,629	2,082
INVESTMENTS	**340**	340	341	447
PROPERTY, PLANT AND EQUIPMENT	**202,648**	165,638	139,415	122,392
PREPAID EXPENSES AND OTHER ASSETS	**4,567**	4,217	5,157	4,851
TOTAL ASSETS	**$592,972**	$516,033	$438,669	$392,385
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Notes payable	**$ 86,340**	$ 6,761	$ 3,658	$ 5,776
Accounts payable and accrued liabilities	**139,367**	98,229	80,281	77,056
Cash dividends payable	**4,188**	4,184	4,176	3,824
U.S. and foreign income taxes	**12,969**	19,919	21,277	19,236
TOTAL CURRENT LIABILITIES	**242,864**	129,093	109,392	105,892
NONCURRENT INDEBTEDNESS	**56,000**	87,200	42,400	16,600
DEFERRED INCOME TAXES	**8,940**	3,925		
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	**7,952**	7,572	7,150	6,700
TOTAL LIABILITIES	**315,756**	227,790	158,942	129,192
STOCKHOLDERS' EQUITY				
Preferred stock authorized and unissued				
Common stock including capital surplus	**82,332**	82,332	82,332	82,332
Retained earnings	**194,884**	205,911	197,395	180,861
TOTAL STOCKHOLDERS' EQUITY	**277,216**	288,243	279,727	263,193
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$592,972**	$516,033	$438,669	$392,385

Property, Plant & Equipment

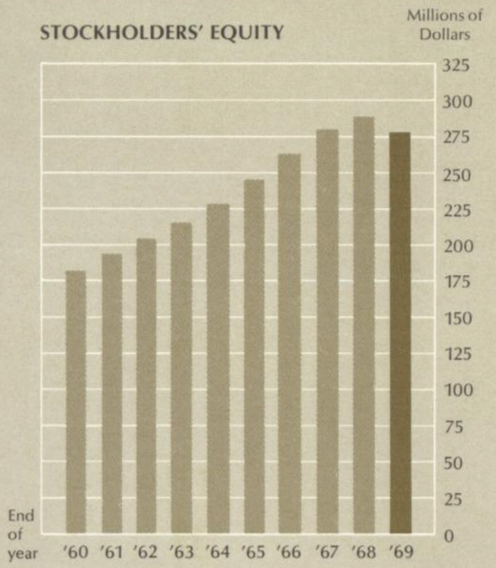
Ten-Year Comparison (in thousands of dollars) For the Calendar Year	**1969**	1968	1967	1966
COST				
At beginning of year	**$334,556**	$298,317	$266,404	$232,858
Expenditures during year	**50,523**	37,388	33,509	34,807
Other additions—initial consolidation of subsidiaries			444	
Retired or sold during year	**(1,724)**	(1,149)	(2,040)	(1,261)
At end of year	**383,355**	334,556	298,317	266,404
DEPRECIATION AND AMORTIZATION				
At beginning of year	**168,918**	158,902	144,012	130,382
Charged to operations during year	**13,439**	10,934	16,436	14,778
Accumulated—initial consolidation of subsidiaries			247	
Accumulated on property retired or sold during year	**(1,650)**	(918)	(1,793)	(1,148)
At end of year	**180,707**	168,918	158,902	144,012
NET BOOK VALUE	**$202,648**	$165,638	$139,415	$122,392

1965	1964	1963	1962	1961	1960
$ 14,641	$ 10,591	$ 13,026	$ 9,169	$ 10,771	$ 12,887
79,117	24,549	20,296	41,837	55,889	48,682
40,301	69,197	49,213	49,726	54,218	53,133
16,683	26,777	22,631	17,850	17,453	15,580
98,936	85,430	78,286	67,490	58,399	52,983
249,678	216,544	183,452	186,072	196,730	183,265
387	13,922	15,799	9,727		
961	1,278	2,621	868	1,044	723
102,476	96,365	95,473	83,679	68,406	70,925
3,292	4,379	4,971	4,759	3,930	4,097
$356,794	$332,488	$302,316	$285,105	$270,110	$259,010

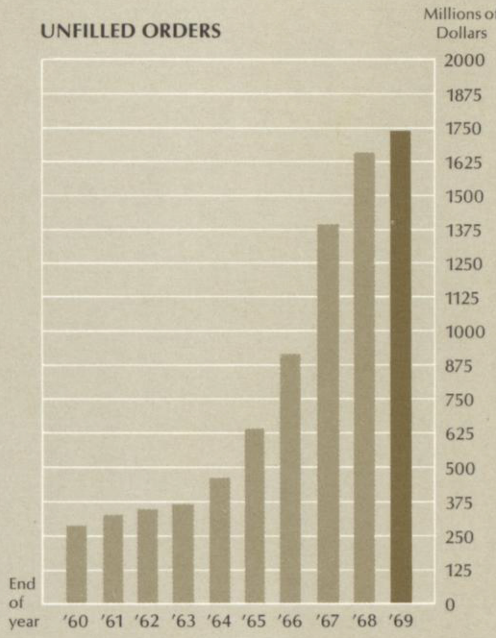
$	$	$	$	$ 2,200	$ 2,200
63,866	56,867	42,546	37,550	29,380	28,706
3,368	3,056	2,622	2,434	2,443	2,135
19,044	18,911	18,433	16,215	16,183	13,060
86,278	78,834	63,601	56,199	50,206	46,101
18,800	18,800	21,000	23,200	25,400	29,800
6,212	5,342	2,218	1,476	1,375	1,372
111,290	102,976	86,819	80,875	76,981	77,273

82,332	82,332	82,332	82,332	82,332	82,332
163,172	147,180	133,165	121,898	110,797	99,405
245,504	229,512	215,497	204,230	193,129	181,737
$356,794	$332,488	$302,316	$285,105	$270,110	$259,010

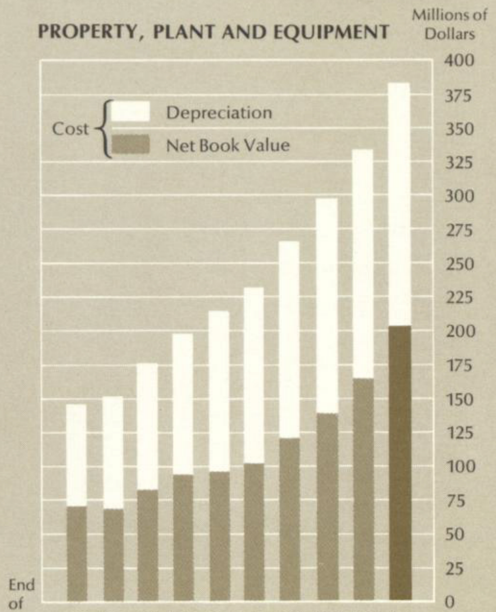
1965	1964	1963	1962	1961	1960
$214,948	$198,827	$176,502	$151,518	$146,140	$140,587
19,610	12,265	23,101	25,662	6,188	6,105
119	5,177				
(1,819)	(1,321)	(776)	(678)	(810)	(552)
232,858	214,948	198,827	176,502	151,518	146,140
118,583	103,354	92,823	83,112	75,215	67,197
13,519	12,825	11,227	10,335	8,673	8,543
29	3,613				
(1,749)	(1,209)	(696)	(624)	(776)	(525)
130,382	118,583	103,354	92,823	83,112	75,215
$102,476	$ 96,365	$ 95,473	$ 83,679	$ 68,406	$ 70,925



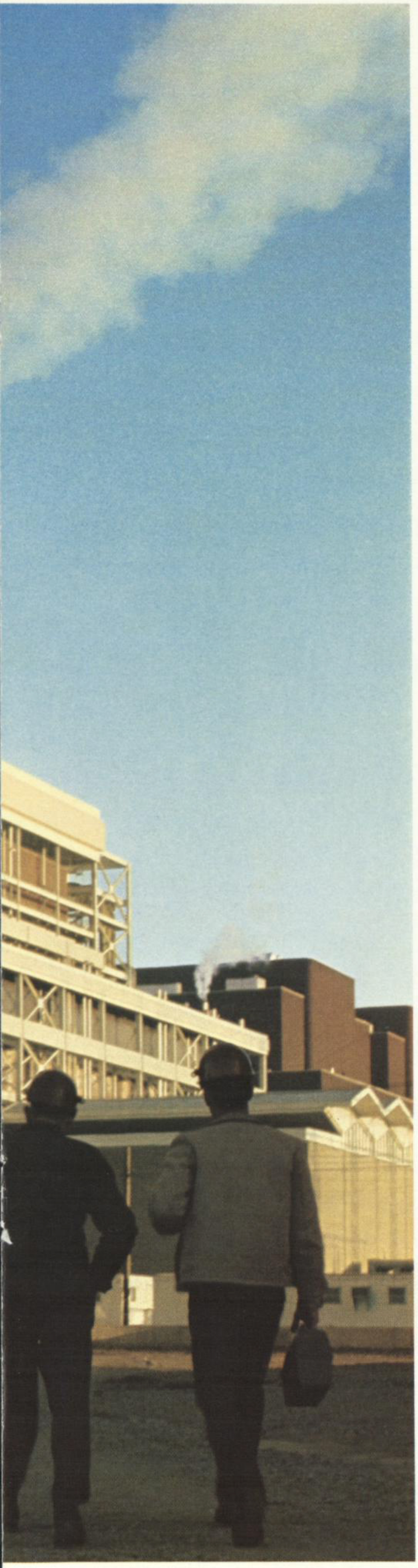
STOCKHOLDERS' EQUITY



UNFILLED ORDERS



PROPERTY, PLANT AND EQUIPMENT



Fossil fuels provide a major portion of the steam used to generate electricity. Three B&W units with a combined capacity of 2,500,000 kilowatts are in operation at TVA's Paradise station in western Kentucky. The largest of the three, a 1,150,000 kilowatt unit, went on line in 1969.

Review of operations

Steam generating equipment

The heavy demand for all types of electric power generation equipment except nuclear continued during 1969. However, the continuing utility interest in nuclear plants indicates that this form of power generation will in time resume a steady growth pattern and the Company expects to be an important participant in this developing business.

Work on the 11 nuclear steam supply systems which utilities have ordered from B&W is progressing. During the year, the pressure vessel and two steam generators for the first of three nuclear steam supply systems for the Duke Power Company were shipped and installation at the site is underway. Bailey Meter will supply integrated control systems for the reactors, steam generators and turbines, as well as emergency reactor protection equipment and extensive instrumentation. Control rod drives and special closed-circuit television cameras will be furnished by Diamond Power.

Earlier in this Report, the production problems involved in nuclear work were discussed in the President's letter.

At present the Company has a full order book for large utility-type fossil-fueled steam generating units scheduled for shipment through 1971, and there is every reason to expect that the demand for this equipment will continue into the future.

__A__/ B&W Canada has perfected the forming of header and drum nozzles by the electroslag welding process. This advanced technique has increased the quality and productivity of nozzle fabrication.

__B__/ Machining is a critical aspect of fabrication on nuclear components. A section for one of the 11 nuclear steam systems B&W has sold to utilities is checked at a new $10 million machining center opened this year.

Seven B&W Universal Pressure steam generators ordered by utilities in 1969 included four 1,300,000 kilowatt units purchased by American Electric Power Company which are the largest units ever sold. Detroit Edison ordered a fourth 800,000 kilowatt B&W Universal Pressure boiler for its Monroe station which will rank it among the world's largest power plants.

Erection was completed during the year on 11 Universal Pressure boilers and nine Radiant boilers totalling more than 8,300,000 kilowatts, versus 7,000,000 kilowatts installed by B&W during the preceding year.

Boiler sales for a wide variety of industrial applications continued at the high level of the past several years. Package boilers, assembled by B&W in the shop for shipment, found new applications in diverse industrial and commercial environments.

In 1969 B&W sold eight process recovery boilers to the rapidly expanding pulp and paper industry, a large user of steam power. Three of the four units sold for installation overseas were designed to control odor emission through a process developed by B&W which replaces accessory equipment responsible for much of the odor associated with kraft paper manufacture. The process also increases boiler efficiency.

Further evidence of the success of B&W boiler designs is the interest of foreign utilities. Three boilers of B&W's Radiant type are being built for two Spanish electric companies. These units, of 566,000 kilowatts each, are the largest Radiant boilers B&W has designed. Italian utility purchases last year brought to 18 the number of Universal Pressure steam generators sold in Italy since 1962. B&W Canada Ltd. registered its largest single export order to date with the sale of two Radiant boilers to Israel Electric. B&W had sold identical units to the utility in 1966 and 1967.

B&W Canada Ltd. also increased sales by expanding its line of pumps to include utility applications and by broadening its market to include pump sales in the United States.

To meet current and future demand for steam generating equipment the Company concentrated a major percentage of its $50 million 1969 capital facilities program on expanding and modernizing manufacturing capabilities within the Power Generation division. Acquisition of a Canton, Ohio, plant in early 1969 increased the division's manufacturing space by almost 600,000 square feet and added more than 800 skilled men to B&W's work force. Production at Canton is now approaching capacity. At Wilmington, North Carolina, 48,000 square feet of manufacturing space was added this year to help meet the growing need for shop-assembled boilers. Additions or modernizations at every other manufacturing facility of the Power Generation division were completed in 1969 or are presently underway.

A

Steel products

Sales of steel and tubular products compared favorably with 1968 performance. There was a high level of demand for both mechanical and pressure tubing, and orders throughout the range of products required near maximum use of production capacity.

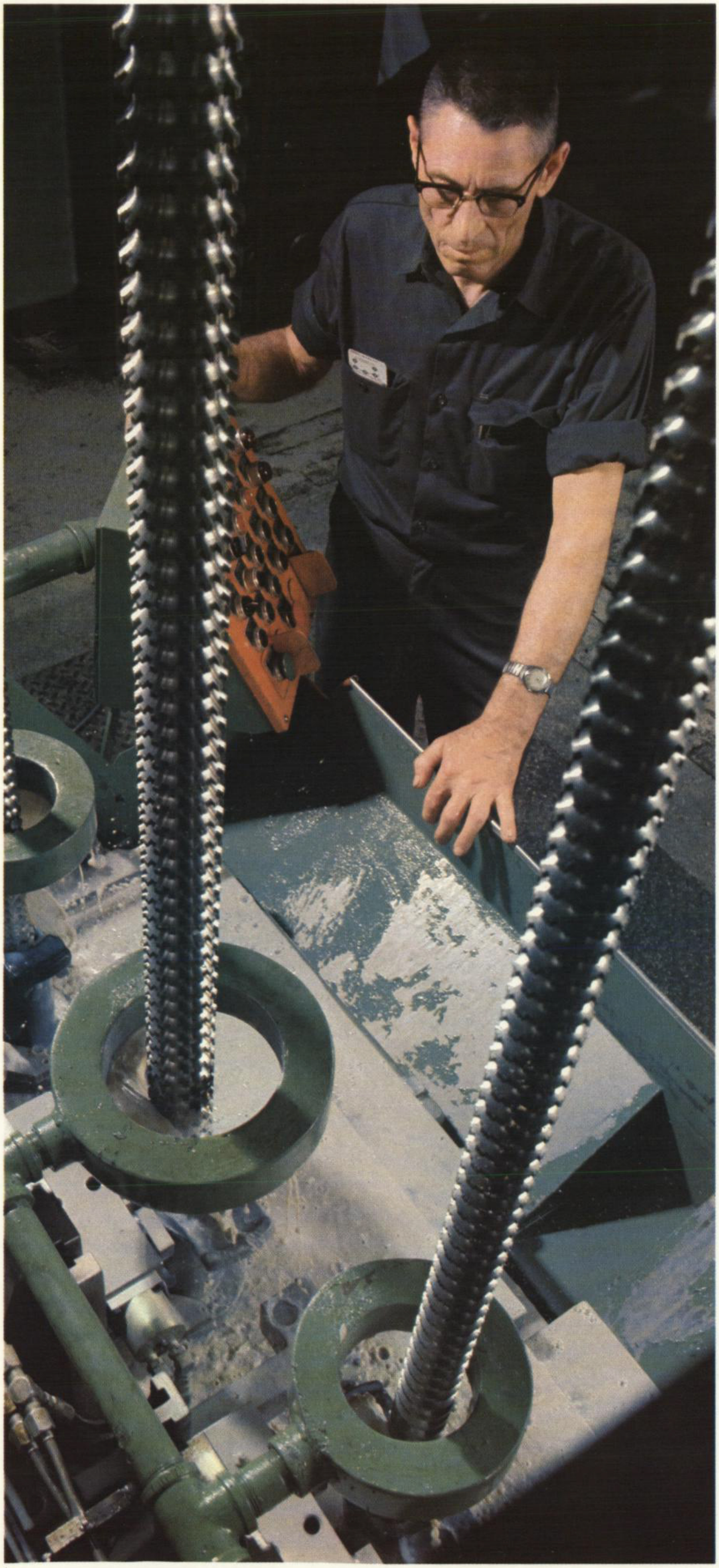
B&W tubular products find application where high quality is required in such diversified markets as the transportation, machinery, construction, metalworking, oil, gas and chemical industries. The division employs integrated production facilities to achieve efficiency and quality goals.

One important application of tubing is in the heat exchangers used extensively in most process industries. In 1969, the Tubular Products division began manufacture of integral finned tubing which permits the use of smaller heat exchangers by increasing heat absorbing efficiency. Market acceptance for this product is growing steadily.

The Company also extended its product line to include the high-alloy, small-diameter tubing used in nuclear steam generators and a plant has been completed at Beaver Falls, Pennsylvania, to manufacture the large quantities of tubing required for this application.

B&W has tested and perfected a technique for the manufacture of seamless tubing which results in bore straightness previously unattainable by the industry. This achievement promises

B



A

B

to reduce long-standing maintenance and repair problems for heavy equipment customers producing hydraulic cylinders from tubing.

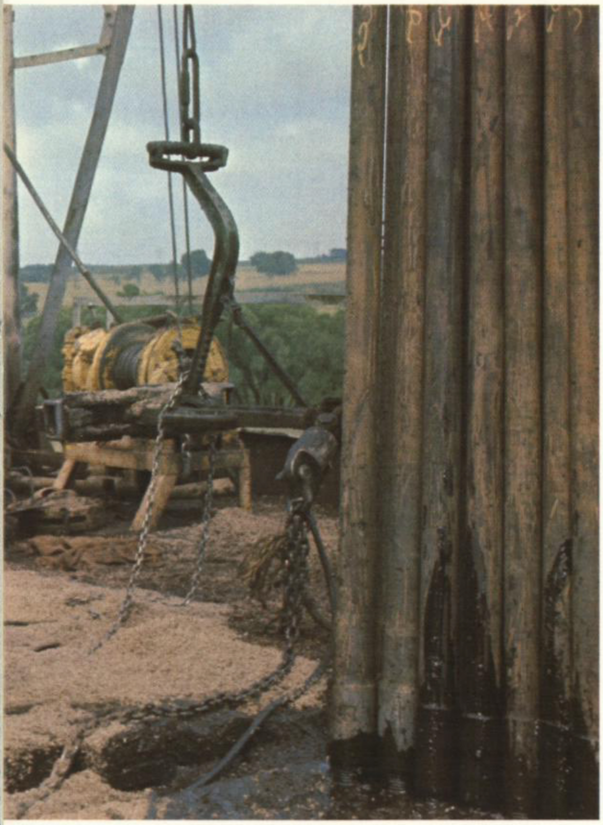
Production machinery

Despite a general slackening of orders in the machine tool industry during the year, the existing and new products of the Automated Machine division were well received and total sales and backlog increased.

Long a supplier of mass production machinery widely used in automobile production, the division is increasing its emphasis on the manufacture of more versatile machine tools to serve a wide range of industries. At the same time the division is working in close cooperation with Bailey Meter to develop completely integrated metalworking systems. Such systems will include machines to do the work, machines to handle and move the work, and computers to control the machines.

A major achievement in this effort was the introduction to the automotive industry of a transfer line which is controlled by a fixed program system. It includes a computer which is capable of detecting more than 85 per cent of machine and control malfunctions frequently before they occur.

During the year, B&W sold a high percentage of the continuous broaching machines bought



A/ *Broaching is the fastest precision metal cutting method known. These three exposed broaching tools are designed with a graduated series of teeth—each removing a little more metal as it is pulled over or through the part being cut. Sales of B&W broaching machines and tools were at record levels in 1969.*

B/ *The Tubular Products division supplied over four miles of casing tubing for one of the deepest and highest-pressure gas wells in the world—known as "#1 Green" —in western Oklahoma.*

by U.S. industry. One of the largest was built for a farm equipment manufacturer to perform nine separate operations on 180 parts per hour. Previously this would have required eight vertical broaching machines.

Since entering the large surface broaching machine field two years ago, B&W has made significant marketing progress. In 1969, the Company accounted for a sizable share of these machines shipped in the U.S. The broaches used in broaching machines must be replaced periodically and represent a growing source of business. In 1969 the division established record broach sales, and constructed a new manufacturing facility in Puerto Rico to handle some of this expanding business.

Principally through its experience with hydrostatic bearings and complex electronic systems, the Automated Machine division has gained a reputation for being able to supply the high precision equipment increasingly in demand. This skill was demonstrated during the year by the manufacture of three of the largest, high precision internal grinders ever built. Orders were received for two similar grinders for the jumbo-jet aircraft production program. Notable shipments included an all-hydrostatic machine for boring V-8 engine blocks and the first of nine computer-controlled gages using laser technology to measure dimensions within a few millionths of an inch.

Computers and control equipment

New opportunities have been created for Bailey Meter with the emergence of the digital control computer as an accepted, sought-after tool for the process control engineer.

This new computer field offers a potential for growth far beyond that available with Bailey's traditional products. The subsidiary is moving to exploit these opportunities in both new and established markets. The Bailey 855 computer has already established itself in utility power plants and models are being added to the computer line that are geared to the smaller process control jobs. One of the 19 Bailey 855 systems sold to date will control and document testing of truck engines coming off a production line. This installation is expected to help the customer improve quality, increase production and reduce costs.

Fluidic devices using flowing air rather than electric current as a medium of control have been developed by Bailey engineers to extend control capability. Having no moving parts, fluidic components are ideally suited for the input and output functions of automatic machinery where their high reliability and low maintenance under severe operating conditions cannot be matched by standard electrical equipment.

A

A/ *Extensive in-plant check-out of Bailey Meter's new 855 digital computer systems assures the high reliability for effective on-line control of modern industrial processes.*

B/ *Manufacturers are finding new ways to use B&W's ceramic fiber insulation, Kaowool; but its basic use continues to be as furnace lining for the metals producing industry. It is one-quarter the weight of brick and one-half the thickness, yet it keeps more heat in the furnace.*

Diamond closed-circuit television systems are aiding traffic control, prison surveillance, navigation, training and education, as well as a variety of other activities.

A Diamond Power closed-circuit television system monitored the epic voyage of the SS Manhattan as she cleared her way through the Arctic ice of the Northwest Passage. Diamond cameras mounted on the bow and stern of the tanker recorded the patterns of polar ice as it broke under the weight of the ship.

Refractories

Refractories sales increased during the year as a result of the introduction of new products and the penetration of new markets with existing products.

The perfection of two high-alumina refractory brick extremely resistant to abrasion and chemical attack promises longer refractory life

B

and lower maintenance costs in the glass, petrochemical and primary metals industries. Their introduction provides users with a durable, high purity product for rugged situations.

Sales of insulating firebrick increased substantially over 1968. This high-volume item comprises a considerable share of B&W refractories shipments.

Kaowool, B&W's ceramic fiber, continues to receive wide acceptance in the industrial marketplace. In addition, because of its versatility and high temperature insulation properties, Kaowool is now being used in a number of consumer products such as self-cleaning ovens and ranges, air conditioners, water heaters, toasters and furnaces for the home.

Nuclear fuel

Nuclear fuel represents a major diversification for B&W, and a significant part of the Company's current backlog consists of orders for the supply and fabrication of fuel for both naval and commercial nuclear reactors. Separate facilities are operated by the Naval Nuclear Fuel division whose sales rose substantially in 1969. The division increased employment by 50 per cent and added major new plant capacity during the year.

In addition to being one of the leading suppliers of uranium fuel to the Navy, B&W offers nuclear fuel services to the utility industry ranging from natural uranium supply to fuel assembly replacement. The Company has contracts for all or part of the fuel services for each of the 11 nuclear systems on order from utilities, including both initial and reload cores. Pilot production of fuel assemblies for the first Duke Power reactor has begun at a new commercial nuclear fuel plant operated by the Power Generation division at Lynchburg, Virginia.

A/ New B&W engineers undergo an intensive company-wide orientation program. In 1969, over 100 who will be part of the management nucleus of the 'seventies and 'eighties took the course.

B/ Fuel elements for nuclear reactor cores are assembled at the Power Generation division's new commercial nuclear fuel plant in Lynchburg, Va.

C/ Reactor operators will be trained on industry's first pressurized water reactor simulator at the Lynchburg, Virginia, headquarters of the nuclear power generation department.

Progress through training

Technology is advancing so rapidly that those adequately trained only a few years ago are in danger of becoming victims of educational obsolescence. Planned re-training of employees is essential if a company is to contribute to the continuing advancement of technology.

Training is also important to B&W as a method of filling its need for people with greater and more specialized skills. It is becoming increasingly difficult to obtain from outside the Company the large numbers of highly qualified people needed to assure continued progress in highly complex and specialized fields. Training people from within is thus an important policy for B&W and attractive to our employees. The Company's extensive training efforts for employees at all levels include both on-the-job and in-class programs. Among others, a significant and effective training activity is currently underway at the Naval Nuclear Fuel division, where each new employee spends four weeks in an intensified formal training program prior to assignment.

Because of the growing sophistication of its products, B&W has initiated a number of customer training programs. A Bailey school offers instructions in programming and computer applications. Utilities which have purchased B&W nuclear systems will soon be sending prospective reactor operators to train on a nuclear reactor simulator housed in the Company's new engineering building at Lynchburg, Virginia. The simulator is capable of qualifying up to 200 reactor operators per year.

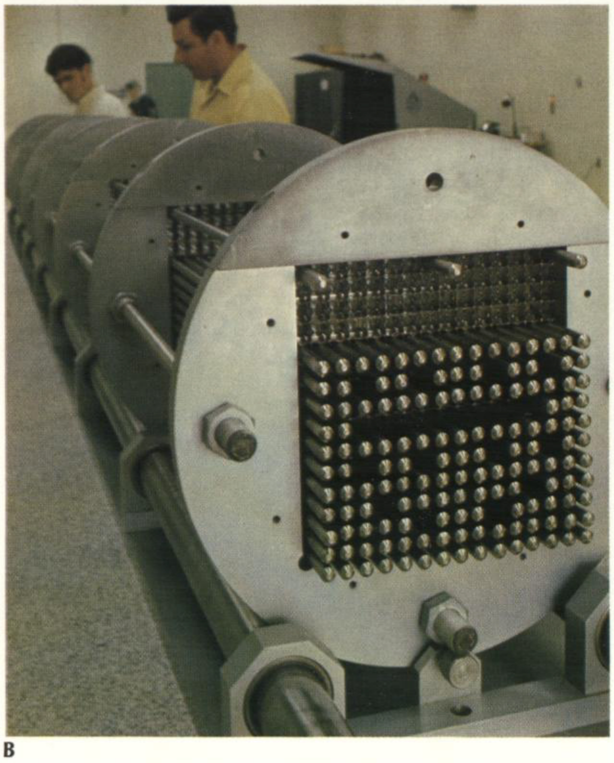
Progress through research

B&W progresses through research on two fronts. At separate research facilities in Alliance, Ohio, and Lynchburg, Virginia, specialized facilities, and professional personnel are devoted to development of new technologies which can be brought to bear on the needs and goals of operating units. At the same time, operating divisions and subsidiaries maintain in-plant programs designed to improve products and processes and broaden their application.

The work at both levels is complementary and efforts are closely coordinated. Some outstanding results of this combined research activity include B&W's nuclear steam generating system, the 855 computer series, a new oxygen analyzer, and a silicon transducer for pressure measurement.

Company scientists and engineers are also advancing the capability of many current products including the B&W nuclear steam system. A five-year R&D program to define the limits of reactor performance is expected to permit a significant increase in system power rating. Modifications in the internal arrangement of the reactor and the steam generator design,

A



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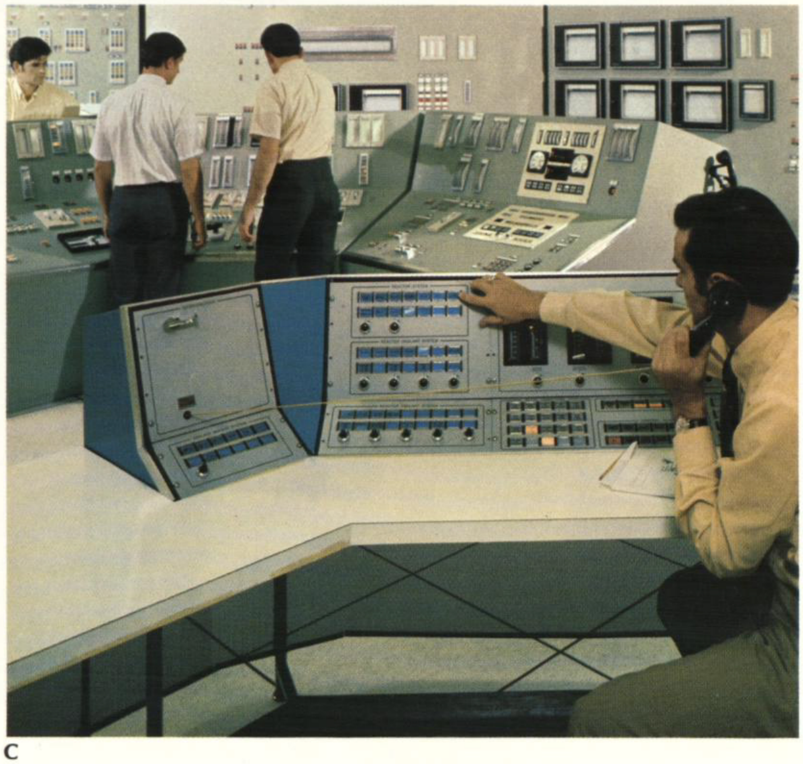


C

A/ At the Alliance Research Center the properties of Kaowool, a Refractories division product, are investigated and developed, leading to new product forms and applications.

B/ Researchers at Alliance, Ohio, probe the inner structure of metals and ceramics with an electron microscope to uncover problem causes and improve product performance.

C/ The special strengths of analog and digital computers are combined at the Alliance Research Center in a hybrid computer, bringing maximum problem solving capability to bear on countless engineering problems.

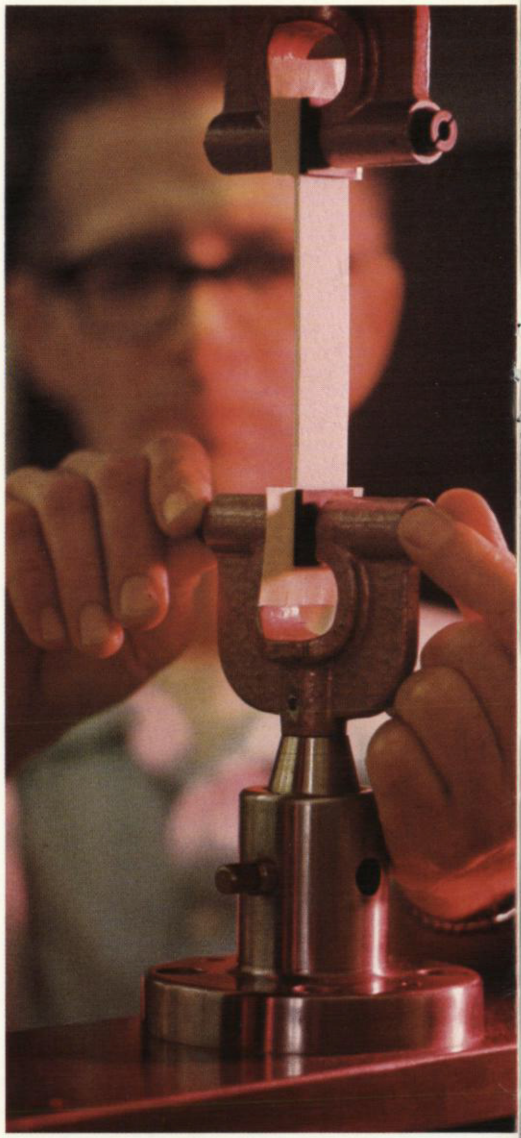
D/ Grindability of various coals and performance of coal pulverizer designs are analyzed at the Alliance Research Center.

including additional alterations, should result in further power upgrading.

Technology is advancing at an ever-increasing rate on all fronts. Large-scale use of electricity for heating, transportation and industrial automation, in addition to population growth, will cause our consumption of electric power to double about every 10 years into the next century. Nuclear power will meet a sizable share of this demand for energy, freeing more fossil fuels for conversion to petrochemicals, fluid fuels, and other organic products.

Changes in B&W's other areas of activity will be equally dramatic. The trend to fully integrated control of machine tools will accelerate. In the process control field, computer functions will be extended to higher levels of process optimization and new forms of adaptive control. Refractory and steel products will become increasingly specialized as routine applications become the exception.

B&W has traditionally sought out involvement in fields of business that pose a considerable technological challenge and a correspondingly high reward for success. Today virtually every aspect of the Company's operation offers significant opportunity to meet the challenge of changing technology with superior products, systems and services.



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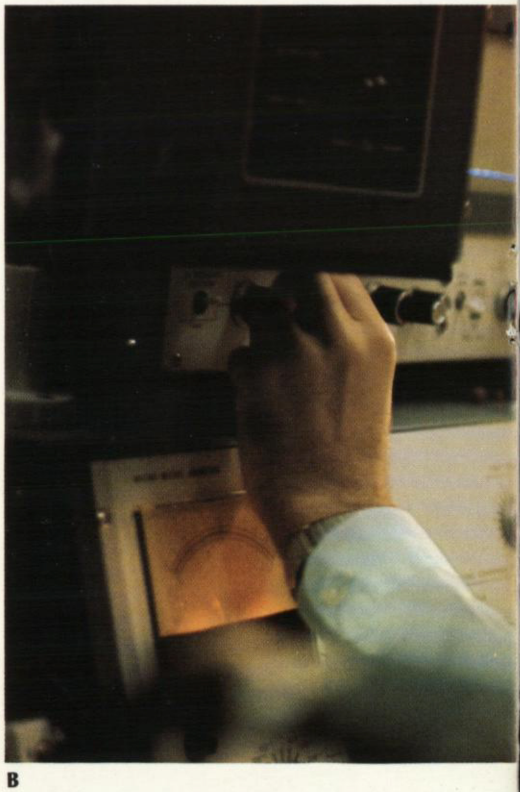

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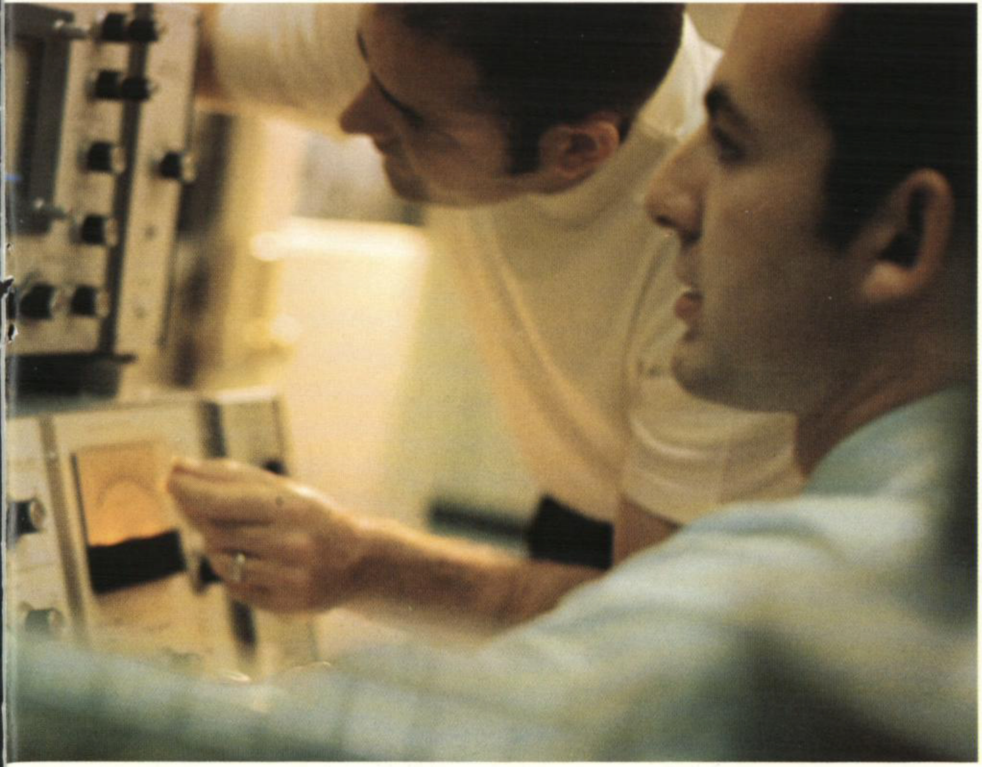

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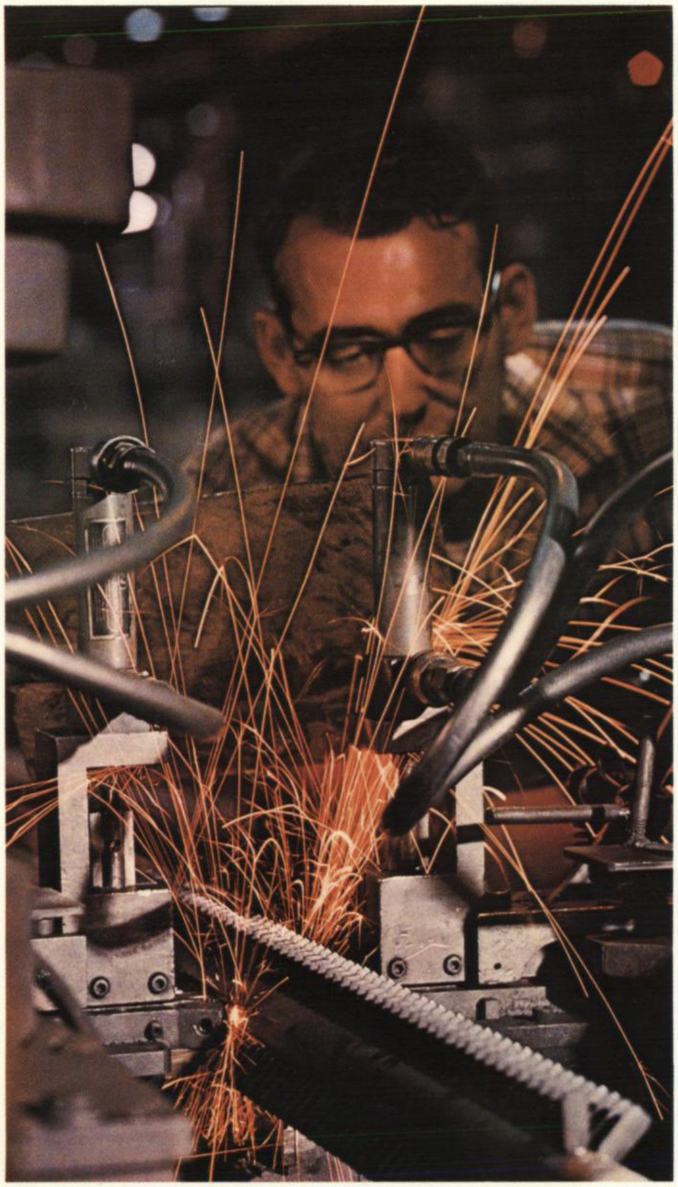

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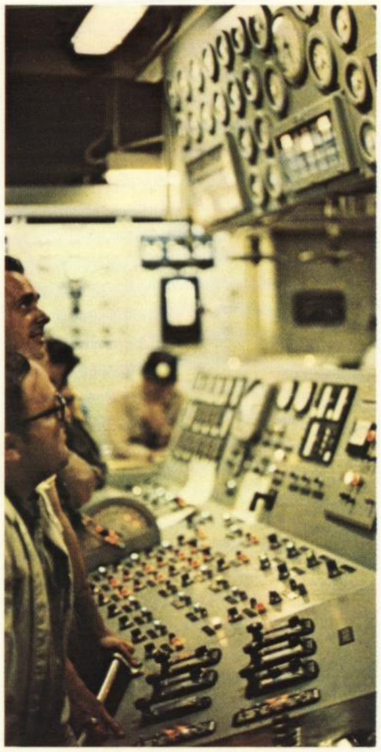

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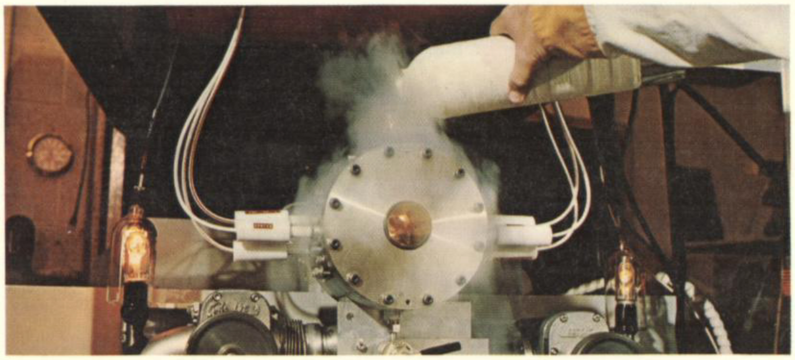
A/ *Fins to improve heat transfer performance are welded on heat exchanger tubing at West Point, Mississippi.* ***B/*** *Sea trials on board one of the 9 vessels equipped with Bailey Meter automation systems last year.* ***C/*** *Shop-assembled package boilers are fabricated at an expanded Wilmington, North Carolina, plant for B&W customers who require power ready for hook-up.* ***D/*** *A 113-foot-long header for a Radiant boiler is fabricated at B&W's recently acquired Canton, Ohio, plant.*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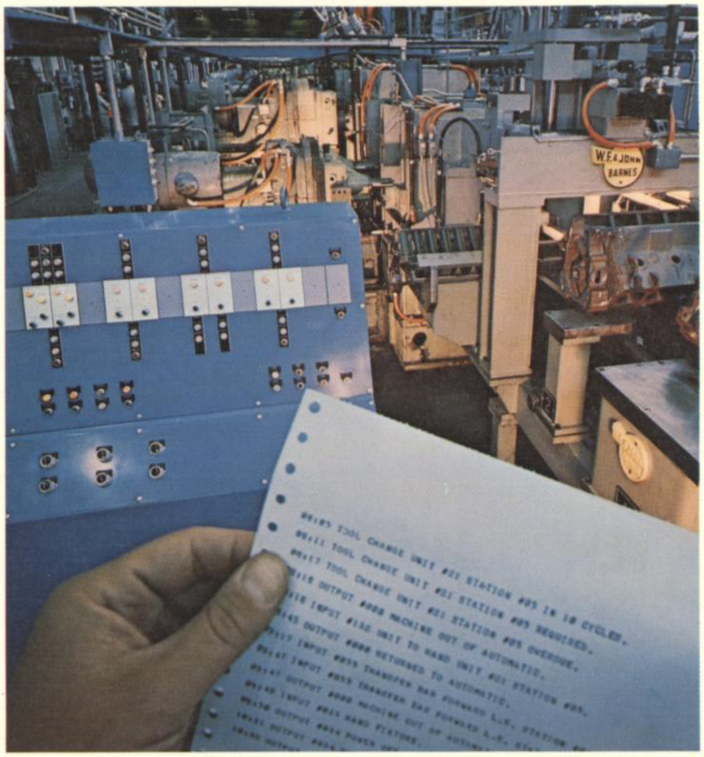

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08:05 TOOL CHANGE UNIT #21 STATION #05 IN 10 CYCLES.
08:11 TOOL CHANGE UNIT #21 STATION #05 REQUIRED.
08:17 TOOL CHANGE UNIT #21 STATION #05 OVERDUE.
08:18 OUTPUT #000 MACHINE OUT OF AUTOMATIC.
08:18 INPUT #132 UNIT TO HAND UNIT #21 STATION #05.
08:45 OUTPUT #000 RETURNED TO AUTOMATIC.
09:17 INPUT #055 TRANSFER BAR FORWARD L.S.
09:47 INPUT #055 TRANSFER BAR FORWARD L.S. STATION
09:47 OUTPUT #000 MACHINE OUT OF AUTOMATIC
09:48 INPUT #015 HAND FIXTURE.
09:50 OUTPUT #034 POWER
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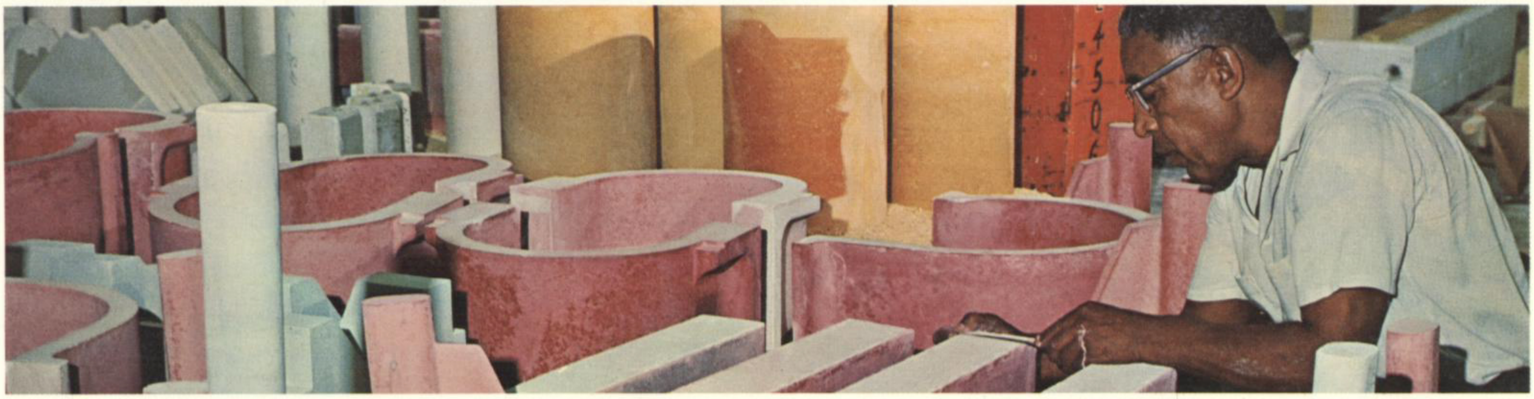
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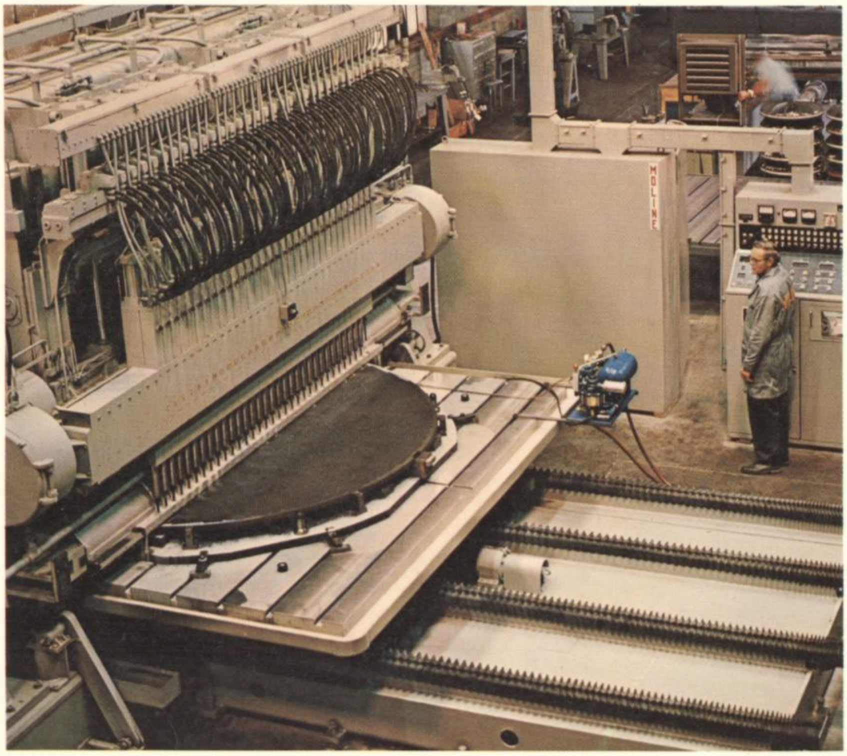
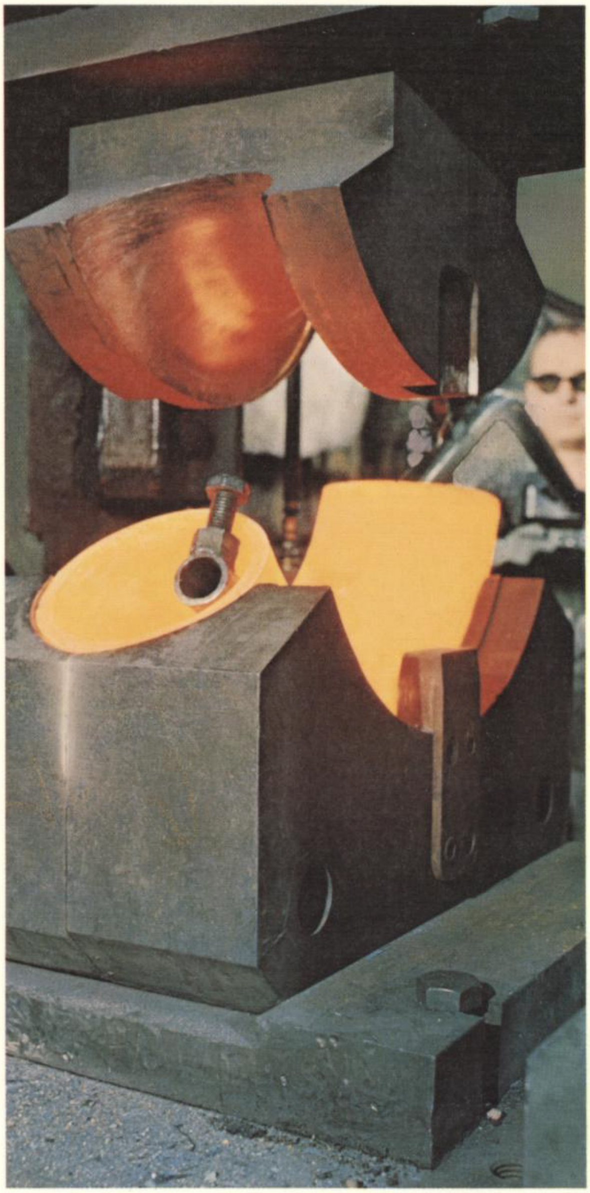
E/ *The mass spectrometer at the Nuclear Development Center in Lynchburg aids in the development of nuclear fuels for advanced reactor designs.* **F/** *Diamond Power sootblowers, used in boilers of various size and design, result in more efficient boiler operation.* **G/** *Cerox shapes made by B&W at Augusta, Ga., are used in the steel, ceramic and process industries in pre-fired shapes.* **H/** *A B&W designed closed-circuit transfer machine was sold to a major automaker. The system will monitor machine performance and reduce downtime by pinpointing trouble area.*



I

J



K

I/ A new multi-spindle machine at the Canton plant drills 33 holes at a time in tube support plates for nuclear steam generators. **J/** *Intricate wiring of electronics systems at Bailey Meter requires trained, highly capable employees.* **K/** *The welding fitting line of the Tubular Products division has been expanded in the pressure piping field.*

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